

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

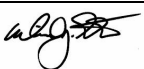
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

# **Nankin Transit Commission**

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**Financial Report  
with Supplemental Information  
June 30, 2006**

# Nankin Transit Commission

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## Independent Auditor's Report

To the Board of Commissioners  
Nankin Transit Commission

We have audited the accompanying basic financial statements of Nankin Transit Commission as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nankin Transit Commission as of June 30, 2006 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

*Plante & Moran, PLLC*

July 21, 2006

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# Nankin Transit Commission

## Balance Sheet - Statement of Net Assets (Deficit) June 30, 2006

	General Fund	Adjustments (Note 2)	Statement of Net Assets (Deficit)
<b>Assets</b>			
Cash (Note 3)	\$ 76,503	\$ -	\$ 76,503
Accounts receivable:			
SMART	2,741	-	2,741
Third party	6,098	-	6,098
Prepaid expenses	3,463	-	3,463
Total assets	<u>\$ 88,805</u>	-	88,805
<b>Liabilities</b>			
Accounts payable	\$ 9,421	-	9,421
Accrued payroll and payroll taxes	17,786	-	17,786
Deferred revenue (Note 1)	129,000	-	129,000
Compensated absences - Expected to be paid within one year	-	57,839	57,839
Total current liabilities	156,207	57,839	214,046
Long-term liability - Advance from SMART (Note 4)	145,000	-	145,000
Total liabilities	301,207	57,839	359,046
<b>Fund Deficit/Net Assets (Deficit) -</b>			
Fund deficit - Unreserved	(212,402)	212,402	-
Total liabilities and fund deficit	<u>\$ 88,805</u>		
<b>Net Assets (Deficit) - Unrestricted</b>		<u>\$ (270,241)</u>	<u>\$ (270,241)</u>

# Nankin Transit Commission

## Statement of Revenue, Expenditures, and Changes in Fund Deficit - Statement of Activities Year Ended June 30, 2006

	General Fund	Adjustments (Note 2)	Statement of Activities
<b>Revenue</b>			
SMART (Note 4):			
General Fund subsidy	\$ 273,000	\$ -	\$ 273,000
Community credits	208,086	-	208,086
Municipal credits	164,035	-	164,035
Total SMART	645,121	-	645,121
Tickets and passes, farebox receipts, and other	121,697	-	121,697
Total revenue	766,818	-	766,818
<b>Expenditures</b>			
Administrative	177,045	-	177,045
Dispatch/Clerical	153,809	1,143	154,952
Vehicle operation	548,758	1,269	550,027
Fixed facilities	18,600	-	18,600
SMART-incurred (Note 4)	79,681	-	79,681
Total expenditures	977,893	2,412	980,305
<b>Excess of Expenditures Over Revenue</b>	(211,075)	(2,412)	(213,487)
<b>Other Financing Sources - Locally raised</b>	178,000	-	178,000
<b>Excess of Expenditures Over Revenue and Other Financing Sources/Changes in Net Assets (Deficit)</b>	(33,075)	(2,412)	(35,487)
<b>Fund Deficit/Net Assets (Deficit) - July 1, 2005</b>	(179,327)	(55,427)	(234,754)
<b>Fund Deficit/Net Assets (Deficit) - June 30, 2006</b>	<b>\$ (212,402)</b>	<b>\$ (57,839)</b>	<b>\$ (270,241)</b>

# **Nankin Transit Commission**

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## **Notes to Financial Statements June 30, 2006**

### **Note 1 - Significant Accounting Policies**

The accounting policies of Nankin Transit Commission (the "Commission") conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of the significant accounting policies used by the Commission:

#### **Reporting Entity**

Under an interlocal public agency agreement between the Cities of Garden City, Inkster, Wayne, and Westland, the Commission functions as an intergovernmental organization for the purpose of providing for the operation, management, financing, and planning of local and specialized transit services in the participants' areas.

The Commission is governed by an eight-member board; each member municipality appoints two members. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Commission's basic financial statements include both government-wide (reporting the Commission as a whole) and fund financial statements.

#### **Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of net assets (deficit) includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. Buses used in the operations are provided by SMART and, therefore, are not recorded on the books of the Commission.

# Nankin Transit Commission

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## Notes to Financial Statements June 30, 2006

### Note 1 - Significant Accounting Policies (Continued)

#### Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to financial expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Commission.

Indirect costs were not allocated to the Commission during the year ended June 30, 2006.

The Commission reports the following major governmental fund:

The General Fund contains the records of the ordinary activities of the Commission. General Fund activities are financed by revenue from SMART, member communities, and individual system users.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Deferred Revenue** - During the year ended June 30, 2006, the Commission received locally raised funds in the amount of \$74,000 from the City of Westland, \$34,000 from the City of Garden City and \$21,000 from the City of Wayne, which relates to the fiscal year ending June 30, 2007. During the current fiscal year, the total amount of \$129,000 is recorded as deferred revenue and will be recognized as revenue during the year ending June 30, 2007.



# Nankin Transit Commission

## Notes to Financial Statements June 30, 2006

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Total fund deficit and the net change in fund deficit of the Commission's governmental funds differ from net assets (deficit) and change in net assets (deficit) of the governmental activities reported in the statement of net assets (deficit) and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets (deficit) and statement of activities versus the economic focus of the statement of the governmental fund balance sheet and statement of revenue, expenditures, and changes in fund balances. The following are reconciliations of fund deficit to net assets (deficit) and the net change in fund deficit to the net change in net assets (deficit):

<b>Total Fund Deficit - Modified Accrual Basis</b>	(\$ 212,402)
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Amounts reported in the statement of net assets (deficit) are different because compensated absences are included as a liability	<u>(57,839)</u>
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<b>Total Net Assets (Deficit) - Full Accrual Basis</b>	<u>\$ (270,241)</u>
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<b>Net Change in Fund Deficit - Modified Accrual Basis</b>	(\$ 33,075)
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Amounts reported in the statement of activities are different because of a decrease in the accrual for compensated absences, which is only reflected in the full accrual statements	<u>(2,412)</u>
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<b>Change in Net Assets (Deficit) of Governmental Activities - Full Accrual Basis</b>	<u>\$ (35,487)</u>
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# **Nankin Transit Commission**

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## **Notes to Financial Statements June 30, 2006**

### **Note 3 - Cash**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Commission has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in instruments approved by the state statutory authority as listed above.

The Commission's cash is subject to the following risk, which is examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk. At year end, the Commission had \$1,983 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Commission believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Nankin Transit Commission

## Notes to Financial Statements June 30, 2006

### Note 4 - SMART Contract

Under the terms of a purchase of service contract entered into between the Nankin Transit Commission and SMART, SMART has agreed to provide, among other things, certain equipment, vehicles, and technical assistance necessary to provide public transportation services within a specified area. The contract attributable to the fiscal year ended June 30, 2006 provides for an annual subsidy of \$645,121, including direct payments by SMART of certain operating costs on behalf of the Commission. This contract has been extended to June 30, 2007.

The direct payments for 2005-2006 were as follows:

Administration	\$ 19,200
Vehicle maintenance	<u>60,481</u>
Total	<u>\$ 79,681</u>

Under the contract, the Commission has also received a working capital advance of \$145,000 from SMART. The total advance is repayable at the contract expiration date if not renewed at that time. The advance has been extended to June 30, 2007.

### Note 5 - Long-term Debt

The Commission's long-term debt is comprised entirely of vested sick and vacation pay totaling \$57,839. The vested sick and vacation pay represents the estimated liability to be paid employees under the Commission's sick and vacation pay policy. Under the Commission's policy, employees earn sick and vacation time based on time of service with the Commission.

### Note 6 - Lease Agreement

The Commission leases office space under a renewable agreement. Rent expense for the year ended June 30, 2006 was \$15,000. The future minimum lease payments are as follows:

Years Ending <u>June 30</u>	<u>Amount</u>
2007	\$ 15,000
2008	15,000
2009	<u>15,000</u>
Total	<u>\$ 45,000</u>

# **Nankin Transit Commission**

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## **Notes to Financial Statements June 30, 2006**

### **Note 7 - Budget Information**

The annual budget is prepared by the director and adopted by the Board of Commissioners; subsequent amendments are approved by the Board of Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Adopting a budget resulting in a fund deficit is also a violation of Michigan law. For the year ended June 30, 2006, the Commission experienced significant budget overruns in vehicle maintenance expenditures and administrative fringe benefits.

The General Fund had a fund deficit of \$212,402 at June 30, 2006. The Commission continues to explore both cost-cutting measures and alternative sources of funding to eliminate this deficit in the future. Additional possible funding sources include increased financial assistance from SMART and participation by new local units of government.

### **Note 8 - Retirement Plan**

The Commission provides a defined contribution savings plan for substantially all employees. The plan provides for the Commission to make a required contribution ranging from 3 percent to 5 percent of employee cash basis wages for the fiscal year. Expenses under the plan amounted to \$15,241 for the year ended June 30, 2006.

### **Note 9 - Subsequent Events**

The union contract expired for drivers on June 30, 2005. A new union contract agreement was reached subsequent to the year ended June 30, 2006. The new contract requires a retroactive pay increase of 3 percent for substantially all employees effective July 1, 2005. The retroactive pay adjustment is approximately \$11,000 and has been accrued for as of June 30, 2006.

## **Required Supplemental Information**

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# Nankin Transit Commission

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>				
SMART:				
General Fund subsidy	\$ 273,000	\$ 273,000	\$ 273,000	\$ -
Community credits	199,428	199,428	208,086	8,658
Municipal credits	164,035	164,035	164,035	-
Total SMART	636,463	636,463	645,121	8,658
Tickets and passes, farebox receipts, and other	136,000	136,000	121,697	(14,303)
Total revenue	772,463	772,463	766,818	(5,645)
<b>Expenditures</b>				
Administrative	166,251	165,601	177,045	(11,444)
Dispatch/Clerical	120,123	120,773	153,809	(33,036)
Vehicle operation	597,939	597,939	548,758	49,181
Fixed facilities	18,600	18,600	18,600	-
SMART-incurred	47,550	47,550	79,681	(32,131)
Total expenditures	950,463	950,463	977,893	(27,430)
<b>Excess of Expenditures Over Revenue</b>	(178,000)	(178,000)	(211,075)	(33,075)
<b>Other Financing Sources</b> - Locally raised	178,000	178,000	178,000	-
<b>Excess of Expenditures Over Revenue and Other Financing Sources</b>	-	-	(33,075)	(33,075)
<b>Fund Deficit</b> - July 1, 2005	(179,327)	(179,327)	(179,327)	-
<b>Fund Deficit</b> - June 30, 2006	<u>\$ (179,327)</u>	<u>\$ (179,327)</u>	<u>\$ (212,402)</u>	<u>\$ (33,075)</u>

# Nankin Transit Commission

## Required Supplemental Information Budgetary Comparison Schedule - Expenditures - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Administrative</b>				
Salaries	\$ 108,069	\$ 108,069	\$ 103,719	\$ 4,350
Fringe benefits	34,882	34,882	51,934	(17,052)
Equipment rental	500	-	-	-
Legal Fees	3,000	3,600	3,530	70
Accounting/Payroll	10,000	9,700	9,907	(207)
Supplies	1,800	1,300	1,239	61
Travel	2,000	2,000	1,748	252
Unfunded capital	1,500	2,000	1,722	278
Telephone	2,000	2,000	1,301	699
Fees for seminars and meetings	1,500	1,350	1,286	64
Miscellaneous	1,000	700	659	41
Total administrative	166,251	165,601	177,045	(11,444)
<b>Dispatch/Clerical</b>				
Salaries and wages	88,400	88,400	93,421	(5,021)
Fringe benefits	27,872	27,872	55,779	(27,907)
Telephone	2,400	2,600	2,572	28
Radio maintenance	51	51	-	51
Office supplies	1,400	1,850	2,037	(187)
Total dispatch/clerical	120,123	120,773	153,809	(33,036)
<b>Vehicle Operation</b>				
Salaries and wages	332,800	332,800	266,638	66,162
Fringe benefits	165,989	165,989	171,731	(5,742)
Uniform allowance	1,100	1,100	281	819
Gasoline	41,500	41,500	54,418	(12,918)
Repairs and maintenance	300	300	130	170
Insurance	56,250	56,250	55,560	690
Total vehicle operation	597,939	597,939	548,758	49,181
<b>Fixed Facilities</b>				
Rent	15,000	15,000	15,000	-
Building maintenance	3,600	3,600	3,600	-
Total fixed facilities	18,600	18,600	18,600	-
<b>SMART-incurred</b>				
Administration	19,200	19,200	19,200	-
Vehicle maintenance	28,350	28,350	60,481	(32,131)
Total SMART-incurred	47,550	47,550	79,681	(32,131)
Total General Fund expenditures	<u>\$ 950,463</u>	<u>\$ 950,463</u>	<u>\$ 977,893</u>	<u>\$ (27,430)</u>

July 21, 2006

To the Board of Commissioners  
Nankin Transit Commission  
37137 Marquette  
Westland, Michigan 48185

Dear Commissioners:

We have recently completed our audit of the financial statements of Nankin Transit Commission for the year ended June 30, 2006. We would like to take this opportunity to thank the staff and management for their assistance during our audit. In addition to our report, we offer the following comments and recommendations.

### **Segregation of Duties**

Due to the size of the Commission, we realize that achieving the optimal level of segregation of duties is difficult. A strong system of internal controls separates the custody and recordkeeping functions surrounding cash receipts and disbursements. In the Commission's system design, the same person who prepares the checks can also post journal entries and prepares the bank reconciliation. This is a rather weak internal control system; however, when a limited number of people are available in which to assign these functions, maintaining the internal controls becomes more challenging.

To strengthen your controls, we suggest that you limit signature authority or have another individual prepare the bank reconciliations. In addition, we would like to take this opportunity to remind you of the importance of maintaining offsetting controls in your system. We have highlighted some of the procedures that we feel are an important element of your internal control system:

- Board review and authorization of expenditures is a key control in your cash disbursement system.
- Two signatures are currently required on checks written by the Commission. Although the bookkeeper is an authorized check signer, this provides an opportunity for someone outside the accounting function to review disbursements before they are made.
- Fare box receipts are turned in to an individual outside the accounting function. The receipts are signed by the driver and the employee receiving the funds. The receipts are then turned over to the accounting department for deposit and recordkeeping. These procedures, in conjunction with the drivers' passenger logs, provide a cross-check to verify the receipts.

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As an added control, we recommend that a person independent of the recordkeeping function prepare the bank reconciliations.

### **Rising Health Care Costs**

Every employer is experiencing significant increases in health care premiums. We understand that your benefit packages need to be structured around contractual agreements. There is significant discussion between employers and bargaining units today due to cost increases and suggested concessions. As you review your plans in this regard for the future, please keep the following approaches in mind:

- Increasing employee deductibles/co-pays
- Use of formularies or generic drug requirements
- Formal cafeteria (or Section 125) plans to provide cash in lieu of benefits, flexible spending accounts, and/or pre-tax employee premium contributions
- Creation of a health care and other benefits menu so that employees can choose a package that best fits their needs, reinforced by a strategic "pricing" mechanism that asks employees to bear higher costs for more generous health care coverage.

We would like to once again express our appreciation for the assistance and cooperation we have received from all the staff during the course of our examination. If any questions arise on reviewing the financial statements or the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations.

Very truly yours,

**Plante & Moran, PLLC**



Michael J. Swartz



Brian J. Camiller